



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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J. TYLER MCCAULEY  
AUDITOR-CONTROLLER

WENDY L. WATANABE  
CHIEF DEPUTY

March 11, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *tm*  
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY AND REVIEW  
OF THE TREASURY OVERSIGHT COMMITTEE'S COMPLIANCE WITH  
GOVERNMENT CODE REQUIREMENTS FOR THE YEAR ENDED  
JUNE 30, 2006**

California Government Code Sections 26920 and 26922 require annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly, in accordance with generally accepted accounting principles. We contracted with Macias, Gini & O'Connell LLP (Macias), Certified Public Accountants, to perform the audit of the financial statements of the Los Angeles County Treasury for the year ended June 30, 2006. The audit was conducted by Macias under the Auditor-Controller's Master Agreement.

Macias issued an unqualified opinion on the Treasurer's financial statements, indicating the statements are presented fairly, in accordance with accounting principles generally accepted in the United States of America. As part of the audit, Macias reviewed the Treasurer's internal controls over financial reporting and identified no material weaknesses. Macias also prepared a management letter (attached), which includes a recommendation related to the review and approval of investment documentation, and a recommendation to change the journal entry format for safekeeping securities. The Treasurer indicated they are working to resolve both of these matters.

Macias also examined the Treasurer's compliance with Government Code Sections 27130 through 27137, regarding requirements of the Treasury Oversight Committee, from July 1, 2005 through June 30, 2006. The Treasury Oversight Committee is responsible for reviewing the County's Investment Policy and monitoring the Treasury's compliance with the policy. Macias noted no matters involving non-compliance with the County's Investment Policy.

Macias' reports are attached. Please call me if you have any questions, or your staff may call Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS:MP

Attachments

c: William T Fujioka, Chief Executive Officer  
Mark J. Saladino, Treasurer and Tax Collector  
Sachi A. Hamai, Executive Officer  
Public Information Office  
Audit Committee

**Los Angeles County  
Treasury**

Management's Discussion and Analysis and  
Financial Statements with  
Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2006

**LOS ANGELES COUNTY TREASURY  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT AUDITOR'S REPORT

Board of Supervisors  
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2008, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
January 25, 2008

**Los Angeles County Treasury**  
**Management's Discussion and Analysis**  
**Unaudited**  
**June 30, 2006**

The Los Angeles County Treasury maintains two investment portfolios, the External Investment Pool (Pool) and the Specific Purpose Investment (SPI) portfolio. The Treasury manages the Pool, on behalf of Pool participants, through the authority delegated to it annually by the Los Angeles County Board of Supervisors. The primary objective of the Treasury's Investment Policy is to ensure the safety of principal. The secondary objective is to meet the liquidity needs of the Pool participants. The third objective is to achieve a return on funds invested. The Treasury accomplished these objectives through the purchase of high quality fixed income investments, held to a designated maturity.

Mandatory Pool participants include the County, local school and community college districts, and the Courts. There were approximately 1,700 Pool participants at the year ended June 30, 2006. The Treasury also maintains a SPI portfolio to manage specific investment objectives of certain Pool participants and other voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represents assets held by the Treasury, in a custodial capacity, pursuant to State Code or a court order.

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2006. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2006.

**Financial Highlights**

- The Pool's total net assets at June 30, 2006 were \$16.21 billion, an increase of \$798.82 million (5.18%) over the year ended June 30, 2005.
- The Pool's total assets of \$16.44 billion at June 30, 2006 exceeded total liabilities by \$16.21 billion.
- The investment income of the Pool increased \$163.44 million (63.99%) from \$255.40 million for the year ended June 30, 2005 to \$418.84 million for the year ended June 30, 2006. The yield on investments increased from 2.14% in the prior year to 3.93% in the current year. This was primarily due to an increase in interest rates in fiscal year 2006.
- The fair value of the Pool showed an unrealized loss of \$37.28 million (.23% of portfolio fair value) at June 30, 2006 compared to an unrealized loss of \$36.6 million (.24% of portfolio fair value) at June 30, 2005.
- The Pool's allowable administrative expenses totaled \$7.36 million for the year ended June 30, 2006. This represented approximately 4.7 basis points of the average daily-invested balance for the year. This ratio was consistent with the ratio for 2005.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Treasury's basic financial statements. The Treasury's basic financial statements consist of two components:

- 1-A) Statement of Net Assets, 1-B) Statement of Changes in Net Assets
- 2) Notes to the Basic Financial Statements.

The Statement of Net Assets presents information on the Pool's, SPI's and Other Specific Investments' assets and liabilities, with the difference between the two reported as net assets.

The Statement of Changes in Net Assets presents information on how the Pool's, SPI's and Other Specific Investments' net assets changed during the most recent fiscal year.

### **Statement of Net Assets**

The Pool's net assets were \$16.21 billion at June 30, 2006, an increase of \$798.82 million (5.18%) from the prior year ended June 30, 2005. SPI net assets were \$1.81 billion, an increase of \$851.55 million (88.95%) from the prior year. Other Specific Investment net assets were \$44.33 million, a decrease of \$157.59 million (78.05%) from the prior year.

## Net Assets

A summary of the net assets is presented below.

External Investment Pool				
	2006	2005	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 16,269,848,377	\$ 15,515,813,900	\$ 754,034,477	4.86%
Cash	63,452,056	53,217,021	10,235,035	19.23%
Interest Receivable	109,978,751	38,120,102	71,858,649	188.51%
Total Assets	16,443,279,184	15,607,151,023	836,128,161	5.36%
Liabilities				
Trades Payable	237,123,494	199,816,250	37,307,244	18.67%
Total Liabilities	237,123,494	199,816,250	37,307,244	18.67%
Total Net Assets	\$ 16,206,155,690	\$ 15,407,334,773	\$ 798,820,917	5.18%

Specific Purpose Investment				
	2006	2005	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 1,796,019,515	\$ 954,035,595	\$ 841,983,920	88.25%
Interest Receivable	13,716,063	3,268,909	10,447,154	319.59%
Total Assets	1,809,735,578	957,304,504	852,431,074	89.04%
Liabilities				
Trades Payable	881,319	-	881,319	N/A
Total Liabilities	881,319	-	881,319	N/A
Net Assets	\$ 1,808,854,259	\$ 957,304,504	\$ 851,549,755	88.95%

Other Specific Investments				
	2006	2005	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 44,331,885	\$ 201,924,969	\$ (157,593,084)	-78.05%
Total Assets	44,331,885	201,924,969	(157,593,084)	-78.05%
Net Assets	\$ 44,331,885	\$ 201,924,969	\$ (157,593,084)	-78.05%

## Changes in Net Assets

The additions include contributions by pool participants, investment income and changes in the fair value of investments. Administrative expenses are shown as a deduction to additions to the Pool and to SPI. Deductions represent distributions to pool participants.

**Pool**

- Contributions by Pool Participants were \$48.63 billion during the year ending June 30, 2006, an increase of \$2.53 billion (5.49%) from the prior year.
- The investment income of the Pool increased \$163.44 million (63.99%) from \$255.40 million for the year ended June 30, 2005 to \$418.84 million for the year ended June 30, 2006. The yield on investments increased from 2.14% to 3.93% in the current year. This increase was primarily due to the fact that the federal funds rate, set by the Federal Reserve, increased during fiscal year 2006, from 3.25% to 5.25% as of the year ended June 30, 2006.
- Administrative expenses, which are deducted from Investment Income, were \$7.36 million for the year ending June 30, 2006, a decrease of approximately \$316.80 thousand (4.13%) from the prior year. The \$7.36 million in total administrative expenses represented approximately 4.7 basis points of the average daily invested balance for the year ended June 30, 2006. This ratio was consistent with the ratio for 2005.
- The fair value of the Pool showed an unrealized loss of \$37.28 million (.23% of portfolio fair value) at June 30, 2006 compared to an unrealized loss of \$36.6 million (.24% of portfolio fair value) at June 30, 2005.
- Distributions to Pool Participants were \$48.45 billion during the year ending June 30, 2006, an increase of \$1.88 billion (4.03%) from the prior year.

**SPI**

- Contributions by Pool Participants were \$2.94 billion during the year ending June 30, 2006, an increase of \$1.18 billion (66.95%). This increase was primarily related to contributions by schools and college districts.
- Distributions to Pool Participants of \$2.14 billion were approximately \$336.94 million above the prior year's figure of \$1.80 billion.
- Investment income increased by \$30.29 million (157.81%).

**Other Specific Investments**

- There were no new contributions by participants during the year ended June 30, 2006.
- Distributions to Participants were \$164.48 million during the year. This includes a distribution of \$3.91 million in realized gains from investments and the return of \$160.55 million to a participant pursuant to a court order.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Summaries of the changes in net assets for the Pool, SPI and Other Specific Investments are presented below:

<b>Statement of Changes in Net Assets</b>					
<b>External Investment Pool</b>					
	<b>2006</b>	<b>2005</b>	<b>Increase/(Decrease) Amount \$</b>	<b>Percentage</b>	
<b>Additions</b>					
Contributions by Participants	\$ 48,633,635,609	\$ 46,103,618,275	\$ 2,530,017,334	5.49%	
Investment Income	418,844,847	255,403,825	163,441,022	63.99%	
Administrative Expenses	(7,360,804)	(7,677,609)	316,805	-4.13%	
Net Increase in Fair Value of Investments	204,807,429	97,393,769	107,413,660	110.29%	
Net Increase from Investment Income	616,291,472	345,119,985	271,171,487	78.57%	
<b>Total Additions</b>	<b>49,249,927,081</b>	<b>46,448,738,260</b>	<b>2,801,188,821</b>	<b>6.03%</b>	
<b>Deductions</b>					
Distributions to Participants	48,451,106,164	46,572,605,442	1,878,500,722	4.03%	
<b>Net Increase (Decrease) in Net Assets</b>	<b>798,820,917</b>	<b>(123,867,182)</b>	<b>922,688,099</b>	<b>-744.90%</b>	
<b>Net Assets beginning of year</b>	<b>15,407,334,773</b>	<b>15,531,201,955</b>	<b>(123,867,182)</b>	<b>-0.80%</b>	
<b>Net Assets end of year</b>	<b>\$ 16,206,155,690</b>	<b>\$ 15,407,334,773</b>	<b>\$ 798,820,917</b>	<b>5.18%</b>	

<b>Statement of Changes in Net Assets</b>					
<b>Specific Purpose Investment</b>					
	<b>2006</b>	<b>2005</b>	<b>Increase/(Decrease) Amount \$</b>	<b>Percentage</b>	
<b>Additions</b>					
Contributions by Participants	\$ 2,937,074,885	\$ 1,759,247,292	\$ 1,177,827,593	66.95%	
Investment Income	49,490,225	19,196,178	30,294,047	157.81%	
Administrative Expenses	(309,011)	(185,374)	(123,637)	66.70%	
Net Increase (Decrease) in Fair Value of Investments	6,962,823	(549,360)	7,512,183	-1367.44%	
Net Increase from Investment Income	56,144,037	18,461,444	37,682,593	204.12%	
<b>Total Additions</b>	<b>2,993,218,922</b>	<b>1,777,708,736</b>	<b>1,215,510,186</b>	<b>68.38%</b>	
<b>Deductions</b>					
Distributions to Participants	2,141,669,167	1,804,724,298	336,944,869	18.67%	
<b>Net Increase (Decrease) in Net Assets</b>	<b>851,549,755</b>	<b>(27,015,562)</b>	<b>878,565,317</b>	<b>-3252.07%</b>	
<b>Net Assets beginning of year</b>	<b>957,304,504</b>	<b>984,320,066</b>	<b>(27,015,562)</b>	<b>-2.74%</b>	
<b>Net Assets end of year</b>	<b>\$ 1,808,854,259</b>	<b>\$ 957,304,504</b>	<b>\$ 851,549,755</b>	<b>88.95%</b>	

Statement of Changes in Net Assets Other Specific Investments				
	2006	2005	Increase/(Decrease) Amount \$	Percentage
Additions				
Investment Income	\$ 93	\$ -	\$ 93	N/A
Net Increase in Fair Value of Investments	6,885,030	3,767,426	3,117,604	82.75%
Net Increase from Investment Income	6,885,123	3,767,426	3,117,697	82.75%
Total Additions	6,885,123	3,767,426	3,117,697	82.75%
Deductions				
Distributions to Participants	164,478,207	3,774,451	160,703,756	4257.67%
Net Decrease in Net Assets	(157,593,084)	(7,025)	(157,586,059)	2243217.9%
Net Assets beginning of year	201,924,969	201,931,994	(7,025)	0.00%
Net Assets end of year	\$ 44,331,885	\$ 201,924,969	\$ (157,593,084)	-78.05%

### Request for Information

This financial report is designed to provide a general overview of the Treasury's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Los Angeles County Treasurer and Tax Collector, 500 West Temple Street, Room 437, Los Angeles, California 90012-2766.

**LOS ANGELES COUNTY TREASURY  
STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>External Investment Pool</b>	<b>Specific Purpose Investment</b>	<b>Other Specific Investments</b>
<b>Assets</b>			
Treasurer Cash	\$ 63,452,056	\$ -	\$ -
Investments:			
Commercial Paper	4,253,206,298	101,890,607	-
Corporate and Deposit Notes	795,550,362	33,989,336	-
Local Agency Investment Fund	-	63,663,684	-
Los Angeles County Securities	10,000,000	5,435,000	-
Mortgage Trust Deeds	-	1,067,220	-
Negotiable Certificates of Deposit	2,882,621,212	193,924,406	-
U.S. Agency Securities	6,611,320,034	300,232,539	-
U.S. Treasury Securities			-
U.S. Treasury Notes	1,712,049,407	481,034,539	-
U.S. Treasury Strips	-	2,818,714	-
U.S. Treasury Bills	-	978,915	44,331,587
U.S. Treasury Bonds	-	764,835	-
CalTrust Medium Term Fund	5,101,064	-	-
Guaranteed Investment Contracts	-	610,219,720	-
Money Market Fund	-	-	298
<b>Total Investments</b>	<u>16,269,848,377</u>	<u>1,796,019,515</u>	<u>44,331,885</u>
Interest Receivable	<u>109,978,751</u>	<u>13,716,063</u>	<u>-</u>
<b>Total Assets</b>	<u>16,443,279,184</u>	<u>1,809,735,578</u>	<u>44,331,885</u>
<b>Liabilities</b>			
Trades Payable	<u>237,123,494</u>	<u>881,319</u>	<u>-</u>
<b>Total Liabilities</b>	<u>237,123,494</u>	<u>881,319</u>	<u>-</u>
<b>Total Net Assets Held in Trust</b>	<u><u>\$ 16,206,155,690</u></u>	<u><u>\$ 1,808,854,259</u></u>	<u><u>\$ 44,331,885</u></u>

The accompanying notes are an integral part of these financial statements

**LOS ANGELES COUNTY TREASURY  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>External Investment Pool</b>	<b>Specific Purpose Investment</b>	<b>Other Specific Investments</b>
<b>ADDITIONS:</b>			
Contributions by Pool Participants	\$ 48,633,635,609	\$ 2,937,074,885	\$ -
Investment Income:			
Investment Income	418,844,847	49,490,225	93
Administrative Expenses	(7,360,804)	(309,011)	-
Net Increase in Fair Value of Investments	<u>204,807,429</u>	<u>6,962,823</u>	<u>6,885,030</u>
Net Increase Resulting from Investment Income	<u>616,291,472</u>	<u>56,144,037</u>	<u>6,885,123</u>
Total Additions	<u>49,249,927,081</u>	<u>2,993,218,922</u>	<u>6,885,123</u>
<b>DEDUCTIONS:</b>			
Distributions to Pool Participants	<u>48,451,106,164</u>	<u>2,141,669,167</u>	<u>164,478,207</u>
Net Increase (Decrease) in Net Assets	<u>798,820,917</u>	<u>851,549,755</u>	<u>(157,593,084)</u>
Net Assets Held in Trust, July 1, 2005	<u>15,407,334,773</u>	<u>957,304,504</u>	<u>201,924,969</u>
Net Assets Held in Trust, June 30, 2006	<u>\$ 16,206,155,690</u>	<u>\$ 1,808,854,259</u>	<u>\$ 44,331,885</u>

The accompanying notes are an integral part of these financial statements

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies**

The Financial Reporting Entity

The Los Angeles County (County) Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The County Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investment (SPI) portfolio with approximately \$16.2 billion and \$1.8 billion, respectively, in total net assets as of June 30, 2006. The Pool is managed by the County Treasury on behalf of the Pool participants, which include the County, local school districts, and the Courts who are required by State statutes to participate in the Pool. Voluntary participants in the SPI portfolio consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The Treasury also maintains Other Specific Investments totaling approximately \$44.3 million at June 30, 2006. These assets are held by the Treasury for both a municipal agency and a private corporation, per State Code and a court order, respectively. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the County Treasury in accordance with Section 53607 of the California Government Code.

Pursuant to Sections 27130-27137 of the California Government Code, the Board has established a County Treasury Oversight Committee to review and monitor the Treasury's Investment Policy. The Committee membership includes the Treasurer, Auditor-Controller, Chief Executive Officer (effective July 23, 2007 the Chief Administrative Officer was renamed the Chief Executive Officer), Superintendent of Schools and a non-County representative. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Treasury's Investment Strategy

The County Treasury's investment strategy for the Pool is to maintain the principal and to provide sufficient cash to meet disbursement needs. The cash flow needs of the Pool members are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The County Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

The SPI portfolio is used to account for the net assets of individual investment accounts, in aggregate. The related investment activity occurs separately from the Pool and is provided as a service to Pool participants and external investors. The individual investment strategies are targeted for the needs of the requesting entity.

The Other Specific Investments are used to account for the assets placed with the County Treasury pursuant to State Code and court order. The investment activity occurs separately from the County's Pool and the related investment strategies are governed by State Code and court order.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions from pool participants are recognized as contributions in the period in which they are received. Distributions to pool participants are recognized in the period they are distributed. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

related cash flows. In accordance with generally accepted accounting principles (GAAP), the County Treasury records investment purchases and sales on the trade date. In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 3. Pool participants' cash balances and withdrawals are based on amortized cost. The Treasury has prepared its deposit and investments disclosures in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*. The related disclosures appear in Note 3.

Trades Payable

Trades payable represents pending investment trades that have not settled at June 30, 2006.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

**Note 2 – Bank Deposits**

As of June 30, 2006, the County Treasury maintained accounts in five banks. The carrying amount of the County Treasury's total deposits in financial institutions was \$63,134,911 plus \$317,145 in cash in the County Treasury's vault. The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the State Treasurer's Local Agency Security Program.

Under Government Code Section 53652, each financial institution in California is required to pledge a pool of securities as collateral against all of its public deposits. Depending upon the type of security in the pool, the pool must have a minimum market value of 110 to 150 percent of the total amount of the public deposits.

The Local Agency Security Program of the State of California Department of Financial Institutions confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of June 30, 2006.

**Note 3 – Investments**

Government Code Sections 53601 and 53635 authorize the County Treasury to invest the Pool and SPI funds (Notes 5 and 6, respectively) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, the State's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the Government Code, the County Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis. The

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

County Treasury also maintains Other Specific Investments which are invested pursuant to State Code and court order.

Investments held by the County Treasury are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as repurchase agreements, money market mutual funds, mortgage trust deeds, Los Angeles County securities, guaranteed investment contracts and investments in the Local Agency Investment Fund. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

Investments in LAIF are governed by California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the Pool's shares in the investment pool. As of June 30, 2006 the total amount invested by all California local governments and special districts in LAIF was \$16.4 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2006 had a balance of \$63.3 billion. The PMIA is not SEC registered, but is required to invest according to California State Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$225 million, and asset-backed securities totaling \$1.4 billion.

The School Districts and the Courts are required by legal provisions to participate in the Pool. The total percentage share of the Pool that relates to these involuntary participants in addition to Los Angeles County and related entities is 92%. The voluntary participants in the SPI portfolio consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

**Risk Disclosures**

As of June 30, 2006, the major classes of the County's investments consisted of the following:

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

<u>Pool</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate</u> <u>Range</u>	<u>Maturity Range</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u>
Commercial Paper	\$ 4,253,206,298	\$ 4,248,934,464	4.89% - 5.33%	07/03/06 - 09/07/06	0.05
Corporate and Deposit Notes	795,550,362	796,416,275	3.50% - 5.50%	07/06/06 - 04/20/09	0.52
Los Angeles County Securities	10,000,000	10,000,000	5.66%	06/30/08	2.00
Negotiable Certificates of Deposit	2,882,621,212	2,884,984,475	4.25% - 5.46%	07/05/06 - 08/06/07	0.17
U.S. Agency Securities	6,611,320,034	6,645,128,379	1.88% - 9.25%	07/07/06 - 07/30/11	1.42
U.S. Treasury Notes	1,712,049,407	1,716,520,805	2.25% - 4.88%	01/31/07 - 05/31/08	0.80
CalTrust Medium-Term Fund	5,101,064	5,152,652	-	12/31/06	0.50
Total Investments	<u>\$ 16,269,848,377</u>	<u>\$ 16,307,137,050</u>			0.73

<u>SPI</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate</u> <u>Range</u>	<u>Maturity Range</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u>
Local Agency Investment Fund	\$ 63,663,684	\$ 63,663,684	-	-	0.42
Commercial Paper	101,890,607	101,815,200	4.98% - 5.04%	07/05/06 - 08/10/06	0.08
Corporate and Deposit Notes	33,989,336	34,000,000	5.06%	08/09/06	0.11
Mortgage Trust Deeds	1,067,220	1,067,220	4.50% - 5.50%	08/01/12 - 04/01/17	8.27
Los Angeles County Securities	5,435,000	5,435,000	5.00%	09/02/21	15.19
Negotiable Certificates of Deposit	193,924,406	194,000,374	4.67% - 5.09%	08/09/06 - 09/14/06	0.11
U.S. Agency Securities	300,232,539	301,555,913	2.16% - 5.24%	07/07/06 - 08/25/10	0.63
U.S. Treasury Securities:					
U.S. Treasury Notes	481,034,539	483,586,500	2.38% - 7.00%	07/15/06 - 10/15/10	0.95
U.S. Treasury Strips	2,818,714	2,830,874	-	08/15/06 - 08/15/09	1.24
U.S. Treasury Bills	978,915	978,437	4.83% - 5.11%	11/09/06 - 12/28/06	0.43
U.S. Treasury Bonds	764,835	247,662	7.25% - 11.25%	11/15/12 - 05/15/16	7.77
Guaranteed Investment Contracts	610,219,720	610,219,720	4.07% - 4.75%	07/31/06 - 06/30/09	0.79
Total Investments	<u>\$ 1,796,019,515</u>	<u>\$ 1,799,400,584</u>			0.72

<u>Other Specific Investments</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate</u> <u>Range</u>	<u>Maturity Range</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u>
Money Market Fund	\$ 298	\$ 298	4.34%	08/10/06	0.00
U.S. Treasury Bills	44,331,587	43,576,990	4.53% - 4.93%	08/17/06 - 12/14/06	0.14
Total Investments	<u>\$ 44,331,885</u>	<u>\$ 43,577,288</u>			0.14

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

Interest Rate Risk

The County Treasurer manages the Pool's exposure to declines in fair value by limiting its weighted average maturity to less than 1.5 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity. 55.29% of the Pool's \$16,269,848,377 in investments at June 30, 2006 mature in six months or less. Of the remainder, 23.32% have a maturity of more than one year. At June 30, 2006, the weighted average maturity in years for the Pool was 0.73.

As of June 30, 2006, variable-rate notes comprised 3.88%, 0.00%, and 0.00% of the Pool, SPI, and Other Specific Investments respectively. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis.

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolios is adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Treasury will not be able to recover the value of investment securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent but not in the Treasury's name. At year-end, all Pool, SPI and Other Specific Investment securities were either held by the Treasury or by the custodian bank in the name of the Treasury and were not exposed to custodial credit risk.

Credit Risk

The Investment Policy sets forth the minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations (NRSROs). For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's), while an issuer of long-term debt shall be rated no less than an A. The Guaranteed Investment Contracts (GICs) and the State of California Local Agency Investment Fund (LAIF) are not rated. The CalTrust Medium Term Fund (CALTRUST) has a rating of AAA (S&P) and P-1 (Moody's).

Concentration of Credit Risk

The Investment Policy limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the Pool portfolio. (An exception to this is obligations of the United States government, United States government agencies or government-sponsored enterprises, which do not have a limit.) Further, the Treasurer restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For commercial paper, bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was \$500 million, or approximately 3.18% of the Pool's average daily investment balance.

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

The Pool and SPI had the following U.S Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2006:

<b>Issuer</b>	<b>Pool</b>	<b>SPI</b>
Federal Farm Credit Bank	\$ 2,434,422,806	\$ 95,277,108
Federal Home Loan Bank	2,082,336,173	-
Federal Home Loan Mortgage Corp	1,937,989,179	116,032,679

In addition, SPI had a total of \$610,219,720 invested in guaranteed investment contracts (GIC). \$494,209,495 was invested with AIG Matching Funding Corporation and \$116,010,225 was invested with Trinity Funding Co.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2006:

<b><u>PSI</u></b>	<b>S&amp;P</b>	<b>Moody's</b>	<b>% of Portfolio</b>
Commercial paper	A-1	P-1	26.14%
Corporate and Deposit Notes	A-1	P-1	4.89%
Los Angeles County Securities	AAA	Aaa	0.06%
Negotiable Certificates of Deposit	A-1	P-1	17.72%
U.S. Agency Securities	AAA	Aaa	40.64%
U.S Treasury Notes	AAA	Aaa	10.52%
CalTrust Medium-Term Fund	AAA	P-1	0.03%
			<u>100.00%</u>

<b><u>SPI</u></b>			
Local Agency Investment Fund	Not rated	Not rated	3.54%
Commercial Paper	A-1+	P-1	5.67%
Corporate and Deposit Notes	A-1+	P-1	1.89%
Mortgage Trust Deeds	AAA	Aaa	0.06%
Los Angeles County Securities	AAA	Aaa	0.30%
Negotiable Certificate of Deposit	A-1+	P-1	10.80%
Guaranteed Investment Contracts	Not rated	Not rated	33.99%
U.S. Agency Securities	AAA	Aaa	16.72%
U.S. Treasury Securities:			
U.S. Treasury Notes	AAA	Aaa	26.78%
U.S. Treasury Strips	AAA	Aaa	0.16%
U.S. Treasury Bills	AAA	Aaa	0.05%
U.S. Treasury Bonds	AAA	Aaa	0.04%
			<u>100.00%</u>

<b><u>Other Specific Investments</u></b>			
Money Market Fund	AAA	Aaa	0.00%
U.S. Treasury Bills	AAA	Aaa	100.00%

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

Safekeeping Securities

At June 30, 2006, all Pool, SPI and Other Specific Investments were safe kept by the Bank of New York, Western Trust, except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, GIC, LAIF, CAL TRUST, money market mutual funds and the mortgage trust deeds. CAL TRUST (the Investment Trust of California, organized as a Joint Powers Authority), is a program established by public agencies in California for the purpose of pooling and investing local agency funds.

The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America or by the County Treasury.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2006 to support the value of shares in the Pool.

Investment Income

The earned rate, which includes investment income, net of allowable administrative expenses, on all Pool investments held by the County Treasury for the fiscal year ended June 30, 2006 was 3.93% on an average daily investment balance of the Pool portfolio of \$15,712,547,334.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of \$142,041,845 and \$42,012,438 were called or sold during the year with a net gain of \$5,136 for the Pool and a net loss of (\$14,206) for SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2006 was \$204,807,429 for the Pool, \$6,962,823 for the SPI, and \$6,885,030 for Other Specific Investments.

Derivatives

The California Government Code and the County Treasury's Investment Policy allow the County Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate.

The County Treasury's Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at par of \$631,350,000 (3.88% of the Pool) as of June 30, 2006. The policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ending June 30, 2006, there were none.

Los Angeles County Securities – External Investment Pool

On August 1, 2005, \$11,921,731 in Marina del Rey Certificates of Participation (COPs), issued by the County to finance Fiscal Year 1992-93 General Fund operations, were redeemed in full.

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the Pool, which are floating rate notes. LACCAL is a nonprofit Corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf of the County. The BANS were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANS and sells them to the County Treasury periodically, based on cash needs. As part of the 2005-2006 Debt Management Guidelines, the Board authorized the issuance of an aggregate amount of BANS not to exceed \$65 million. As of June 30, 2006, the Pool had \$10,000,000 invested in LACCAL BANS.

BANS are payable within five years of the purchase date. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated by the end of the five-year period, they convert to capital leases with a three-year term secured by County real property.

Los Angeles County Securities – Specific Purpose Investment (SPI)

As of June 30, 2006, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5,435,000 issued on December 2, 1997. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Mortgage Trust Deeds

In December 1986 and October 1987, the Board approved the disbursing of funds for mortgage trust deeds as part of the settlements of the Flying Triangle and the Abalone Cove landslide litigation. Such disbursements are authorized under Government Code Section 23004, the County's power to compromise and make payment of claims being implicit in the County's power to sue and be sued. Per the Flying Triangle and Abalone Cove settlements, the combined amount of all mortgage loans is not to exceed \$8,500,000.

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rates of between 4.5% and 5.5%, except for one loan that had a variable rate of 4.5% as of June 30, 2006. As of June 30, 2006, \$1,067,220 in mortgage trust deeds are included in the SPI portfolio.

**Note 4 – Interest Receivable**

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2006, the Pool had \$109,978,751 of interest receivable of which \$5,140,375 represents accrued interest purchased. At June 30, 2006, the SPI portfolio had \$13,716,063 of interest receivable of which \$322,101 represents accrued interest purchased.

**Note 5 – External Investment Pool**

The Treasury maintains the Pool, which includes all funds deposited by County entities and external legal entities. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury. Earnings on Pool investments are allocated monthly to Pool participants by the County Auditor-Controller based upon each participant's average daily balance in the allocation period. Investment gains and losses are proportionately shared by the entities participating in the Pool as an increase or reduction in investment income, net of administrative costs. Section 27013 of

**LOS ANGELES COUNTY TREASURY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (CONTINUED)**

the California Government Code authorizes the County Treasury to deduct certain Treasury-related administrative fees.

Investments purchased with the intent to be held to maturity are accounted for in the non-trading portion of the Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the Pool. During the year ended June 30, 2006, the County Treasury did not purchase any investments for trading purposes.

**Note 6 – Specific Purpose Investment**

The County Treasury maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the County Treasury. Investment income/loss distribution is credited/debited to the specific entity for which the investment was made.

**Note 7 – Other Specific Investments**

Other Specific Investments represents assets held by the County Treasury pursuant to State Code and a court order, and totaled \$44,331,885 at June 30, 2006.

This amount is comprised, in part, of \$44,028,581 in U.S. Treasury bills, held in the Treasury's Special Safekeeping Account II at Bank of New York, Western Trust and \$298 in Dreyfus Money Market Fund. The funds were deposited by Phillip Morris USA Incorporated to stay enforcement, pending appeal, of two judgments by the Superior Court of the County of Los Angeles. The remaining \$303,006, also in U.S. Treasury bills, is held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Supervisors  
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2006, and have issued our report thereon dated January 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the Treasury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Treasury's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to Treasury management in a separate letter dated January 25, 2008.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
January 25, 2008



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## **INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH GOVERNMENT CODE SECTIONS 27130 THROUGH 27137**

Board of Supervisors  
County of Los Angeles, California

We have examined the Los Angeles County Treasury's compliance with California Government Code Sections 27130 through 27137, which addresses requirements of the Treasury Oversight Committee, during the year ended June 30, 2006. Management is responsible for the Treasury's compliance with those requirements. Our responsibility is to express an opinion on the Treasury's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasury's compliance with specified requirements.

In our opinion, the Treasury complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006.

This report is intended solely for the information of the Treasury's management and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
January 25, 2008

**LOS ANGELES COUNTY TREASURY**

**Report to Management**

**For the Year Ended June 30, 2006**



**MACIAS GINI & O'CONNELL LLP**  
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January 25, 2008

County Board of Supervisors  
Los Angeles County, California

In planning and performing our audit of the basic financial statements of the Los Angeles County Treasury (Treasury), for the year ended June 30, 2006, we considered the Treasury's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal accounting controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Treasury's internal control in our report dated January 25, 2008, in conjunction with our audit of the Treasury's basic financial statements for the year ended June 30, 2006. This letter does not affect that report.

This report is intended solely for the information and use of the Board of Supervisors, the Treasurer's Oversight Committee, and Treasury management and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Treasury personnel and have included management's responses to our recommendations in the attached memorandum. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Macias Gini & O'Connell LLP*

Macias Gini & O'Connell LLP

## **Current Year Findings and Recommendations**

### **2006-01 - Documentation of Review and Approval**

The Treasurer's trade ticket includes a section to document both an Internal Controls accounting staff and management staff review. Of the 130 trade tickets reviewed, MGO noted 6 (5%) that were not signed by an Internal Control manager indicating review of the trade ticket. (The 6 trade tickets were signed by an Internal Controls accounting staff.) However, none of the investment transactions included on the trade tickets were out of compliance with the Investment Policy.

The Treasurer's Return of Cost book is to be reviewed by an Internal Controls accounting staff who should document that review by signing his/her name. MGO reviewed 136 Return of Cost entries and noted 3 instances (2%) where the entry was not signed by an Internal Controls accounting staff, indicating a review and approval of the information contained therein.

### **Recommendation**

Treasury management ensure that all investment transactions are properly reviewed, approved and signed off, as required by its Investment Policy.

### **Management Response**

The Treasury's Internal Control Branch's practice is to document an initial review and a management review of all trade tickets/delivery instructions and a staff review of the Return of Cost book. All trade tickets reviewed were in compliance with the Investment Policy and all Return of Cost accounting entries were appropriately recorded. Management has reiterated to staff the need to consistently comply with these practices.

### **2006-02 - Safekeeping Accounting**

During our test work for safekeeping transactions, we noted that the Treasury did not prepare a journal voucher for the free delivery of U.S. Treasury Bills to Phillip Morris. Upon further inquiry, MGO noted that the Treasury was incorrectly accounting for the transactions within the Safekeeping accounts. All security transactions (purchases, sales, withdrawals, and maturities) were booked only to a cash and liability account as follows:

#### **Purchase:**

Dr. Liability  
    Cr. Cash

#### **Maturity:**

Dr. Cash  
    Cr. Liability

However, the liability account balance should have remained at the original principal balance and should only be affected by investment earnings/losses or wire transfers of excess earnings to Phillip Morris. All other investment activities should have been booked as follows:

#### **Purchase:**

Dr. Investments  
    Cr. Cash

#### **Maturity:**

Dr. Cash  
    Cr. Investments  
    Cr. Liability (earnings on investments)

### **Recommendation**

MGO recommends that the Treasury follow the prescribed journal entries above for accounting for safekeeping securities.

### **Management response**

Staff will consult with the Auditor-Controller to correctly account for these safekeeping securities.

## **Status of Prior Year Findings and Recommendations**

### **2005-01 - Documentation of Review and Approval**

The Treasurer's trade ticket includes a section to document both an Internal Controls accounting staff and management staff review. Of the 240 trade tickets reviewed, MGO noted 8 (3%) that were not signed by an Internal Control manager indicating review of the trade ticket. (The 8 trade tickets were signed by an Internal Controls accounting staff.) However, none of the investment transactions included on the trade tickets was out of compliance with the Investment Policy.

The Treasurer's Return of Cost book is to be reviewed by an Internal Controls accounting staff who should document that review by signing his/her name. MGO reviewed 155 Return of Cost entries and noted 14 instances (9%) where the entry was not signed by an Internal Controls accounting staff, indicating a review and approval of the information contained therein.

### **Recommendation**

Treasury management ensure that all investment transactions are reviewed and approved by signing off on all trade tickets and by signing off on the Return of Cost book.

### **Status**

Please see current year finding.